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# Overcoming tradition with thought

Anonymous

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out classification as to set up a balance sheet with the proprietary equity shown as a lump sum. Part of it is capital on which dividends may not encroach. Part of it is perhaps surplus resulting from operations and available for dividends. Some of the equity may be surplus arising from revaluation of assets and while available for dividends legally is not in the form of liquid assets which may be distributed in satisfaction of a dividend declared.

Where is the sane director who wishes

to base his dividend action on a financial statement which may get him into trouble with the law? It is only common accounting sense that a balance sheet, whether the stock be with or without par value, should show the capital, the surplus arising from operations, and the surplus arising from revaluations. Only with such information before them will directors be able to form judgments and dictate financial policies which are at once logical and safe.

*(To be continued)*

### Overcoming Tradition With Thought

**T**RADITIONS are difficult to overcome. The fact that a thing has been done in a certain way for years seems, in some circles, to give it a vested right which is indestructible. The English firm of accountants who, when a former apprentice sent them an American form of income statement for perusal as a matter of interest, replied that they had been making their statements in a certain way for thirty-five years and thought they wouldn't change, offers an illustration which is typical. Another English firm, when receiving an American balance sheet in the same manner said: "Yes; it's a very good statement, but fancy putting the liabilities on the wrong side."

So there are many things about accountancy practice, regardless of the geographical location, which go on year after year in the same way, because of tradition.

A certain report of a certain client had appeared in the same way for several years. The statements were anything but creditable from an accounting point of view, but no one would take the responsibility for changing them, because it was contended that they met the wishes of the client. The client was consulted. He expressed ignorance of the history back of the form of statement in question, and

admitted the supposition that the accountants were responsible for the absurdity. Knowing little about the technicalities of accounting, he had not felt qualified to criticize. He was sure of one thing, however, that he had never understood the statements.

Accordingly, the sham of tradition was broken down. The debris was cleared away, and the foundation laid for a new structure based on reliable information.

Sudden changes are not desirable. They are apt to cause shock. And a client suffering from shock is not always an easy problem. But there is generally a way to handle such matters so as to prepare the mind in advance without causing shock.

In the case just cited, it was suggested to the client that a year hence the report should be changed. He was advised to discuss the matter with his associates so that they would be prepared for the change. Having laid this foundation, it was an easy matter a year after the original incident to prepare a statement both clear and comprehensive, and one which the client subsequently confessed he was able to understand for the first time in the course of his relations with the accountants.

Auditing practice is more or less a slave

to tradition. The routine procedure which has been followed in the past seems to govern and control without any thought of change. The statements are prepared after the work has been completed. Someone started doing it that way; the rest of us follow. But some day it will occur to someone to set up the statements as soon as the spot verifications have been completed, so that some idea of relations and relative importance may be had.

Under such circumstances, matters worthy of attention will receive it. Minor items will be passed by. Inventories, inconsequential in amount when compared with the total assets, will receive passing but thoughtful scrutiny of the larger items

instead of a mechanical checking to the last cent. The current position will stand out. Many phases of condition and operation will be brought into relief, and the whole work of audit will be performed with an intelligent array of facts which have a bearing on the particular case. Corrections of figures may have to be made as a result of the audit, but this is a simple matter once the adjustments have been determined.

Consistency is a laudable virtue, but its practice is oftentimes beset with the pitfalls of tradition. Sweeping aside tradition without proper thought is dangerous; intelligently done, the result frequently makes for progress.

### Use and Occupancy Insurance

**P**UBLIC accountants, because of their contact with business, constitute, perhaps, as good a medium through which to test the existence or general use of any form of insurance as might be found. It was probably with this thought in mind that an officer of one of the leading fire insurance companies recently asked a public accountant to what extent, in the course of practice, accountants find clients carrying use and occupancy insurance.

It is, perhaps, not safe to answer this question without a fair amount of investigation, in order that the reply may be based on facts, but the offhand impression is that such form of insurance is seldom encountered.

The term itself is extremely vague, and carries little meaning to the uninitiated. Insurance men even admit this, and have gone so far as to suggest a more informative title, namely, business interruption indemnity.

There is little wonder that such form of policy is not more widely taken when one realizes the complications which enter into the writing of such policies. It ap-

pears that among insurance people the matter is a highly technical one, and when occasion arises in which this form of policy is indicated, there are many moot questions which have to be settled more or less arbitrarily among the companies, agencies, and brokers. While the outstanding idea underlying these policies is to indemnify business concerns for losses incident to the interruption of business resulting from fires, the fine lines which have to be drawn in the settlement of such losses make it difficult for the average layman to appreciate the advantages of such policies.

The average business house probably insures only against loss of property, and, as everyone knows, such insurance is pretty generally carried. It would, however, appear to be a matter of good business judgment to anticipate the possibility of loss beyond property damage, on account of the interruption of business, which is almost certain to ensue after a fire. Certain expenses and fixed charges continue, while the income is interrupted. The organization must be held together